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Depreciation Over the Service Life of an Asset

By A. A. FITZGERALD, B. Com., F.I.C.A.

(Reprinted from the Commonwealth Journal of Accountancy, Melbourne, Australia)

FOR the reasons explained in a previous note, the original cost of a Fixed Asset should be written off, by periodical charges to Revenue, during the effective life of the asset. The problem that arises is how best to apportion the amount so written off against the various accounting periods. Several methods of doing this have been devised each method possessing some apparent advantage over the others, but it may be admitted at the outset that no one method is completely satisfactory for all types of Fixed Assets and in all circumstances.

Choice of Methods

The total amount to be written off consists of:

1. The cost of acquiring the asset; plus
2. The cost of receiving and installing the asset ready for use in the desired position, less
3. The amount (if any) received for the sale of the asset when it is finally disposed of by the business.

In regard to the third item, the amount must be estimated in advance, since the writing off is to be done at intervals during the service life of the asset, and cannot be deferred until the asset is sold and the exact amount of the disposal price is known.

This total amount may be written off by one of the following methods:

1. The "straight line" method—by writing off in each accounting period a fixed percentage of the original installed cost of the asset. The percentage will be such an amount as will complete the required writing off as nearly as possible by the expiration of the estimated service life of the asset. In support of this method, it is urged that the periodical depreciation charge is simple of calculation, and that the method spreads the writing off equally between equal periods of time. This apparent equality, however, assumes that time is the main factor to be considered in relation to the using up of the asset, and little weight is given, under this method, to loss of value through use of absolescence.

2. The fixed percentage on diminishing balance method—under which a fixed percentage is written off the diminishing book value of the asset, that is, the percentage remains unaltered during the period of writing off, but is calculated in each period, not on the original

cost, but on the balance of original cost remaining after the deduction of all previous depreciation charges. Thus the absolute amount written off diminishes from period to period. Advocates of this method claim that it produces greater practical equality than the straight line method, in that as the asset grows older more and more expenditure on repairs will be necessary. The total cost of using the asset —depreciation plus repairs—therefore tends to be more nearly equal from period to period than under the straight line method. It may be argued against this claim that the cost of using an asset naturally increases with the age of the asset, and that this fact should be reflected in the accounts. If that is true, the straight line method is closer to actuality than the diminishing balance method. Moreover, the method is subject to the same objections as those made above in connection with the straight-line method, that is, its emphasis on time and neglect of the factors of use and absolescence.

The method is probably the most commonly used in Australia, but it is thought that this due, not to its supposed inherent advantages over other methods, but to the fact that depreciation charges are commonly credited to the asset account, and depreciation is calculated as a percentage of the ledger balance.This results in an automatic —and, as it were, unconscious—adoption of the diminishing balance method. The selection of the best method should be deliberate and should not be influenced by book-keeping practice. For this reason —as well as for other weighty reasons—it is preferable that depreciation charges should not be credited to the asset account, but to a provision account. Such a procedure preserves a clear record in the books of the original cost of the asset.

If the diminishing balance method is used, the percentage written off should be much higher than under the straight line method in order to reduce the original cost to scrap value within the same period.

This will be clear from the following simple illustration:—

The writing off of 10% per annum by the straight line method will reduce book value from £1,000 to £100 in nine years. To effect a similar result, under the diminishing balance method, the percentage required is approximately 20½ per cent.

3. The Re-valuation Method. Under this method the asset is periodically inventoried and re-valuel, the difference between the new valuation and the old book value being written off as depreciation. Obviously this method does not accord well with the analysis of the nature of depreciation made in the previous note of this series, since the revaluation is likely to be based on present market balue, and will have no necessary connection with the unexpired capital outlay.

Nevertheless, the method serves a useful purpose in connection with such assets as loose tools, in which the risk of total loss from pilfering, misplacement, etc., is an important factor.

4. The production Units Method. By this method Depreciation is apportioned according to the amount of use of the asset, without regard to time. The estimated number of units to be produced by an asset, e.g., the number of miles to be run by a truck, is divided into the total depreciation to be written off. This gives a unit depreciation charge—so much a mile run or article produced. The depreciation charge for each period is then ascertained by multiplying the units produced by the asset in that period by the unit charge.

The method partly meets the objection against the straight line method, but it goes to the other extreme of entirely disrgarding time as a factor in depreciation. It must be remembered that many assets depreciate—sometimes very rapidly—even whilst they are not being used. The production units method makes no charge for an asset whilst it is idle.

5. The Annuity Method. Modern cost accounting practices are largely responsible for the growing popularity of this method, which in effect assumes that production facilities are rented to the production department, at a rent which will produce for the business a rate of return on its investment in Fixed Assets which is equivalent to the rate which could be earned by outside investment of the funds. The total amount of depreciation to be charged under the method is the original installed cost of the asset (less estimated scrap value) **plus** interest at the ruling rate on the amount of the Unexpired (or Unrecouped) Capital Outlay from time to time. The amount charged to production cost (Manufacturing Account) in each equal period of time is equal, the credit in each period to Provision for Depreciation is equal, whilst the Interest (credited to Revenue) is a diminishing quantity from period to period.

Thus, on an asset costing £3,000 to be written off completely in seven years, the total interest to be charged to operations for the seven years at 4% amounts to £498/16/1, and the total amount to be charged for Depreciation is, therefore, £3,498/16/1. This would be charged to Manufacturing Account in seven equal yearly instalments of £499/16/7, the instalments being credited to the Provision for Depreciation Account. Interest would be debited to the Asset Account and credited to Interest Account as under.—

Year 1	£120	0	0
Year 2	104	16	2
Year 3	89	0	1
Year 4	72	11	6
Year 5	55	9	8
Year 6	37	14	2
Year 7	19	4	6
	£498	16	1

It is evident that, whilst the amount charged to the Production Department each year is equal (in which the result resembles that under the straight line method), the net charge against the revenue of the business as a whole (i.e., depreciation charged less interest credited) is an increasing quantity. This may be justified on the ground that as funds are released from the investment in the fixed Assets they become available for earning revenue in other directions.

6. The Depreciation Fund Method. This method is similar in theory to the Annuity Method, but the depreciation charges as made are actually invested at interest outside the business, in such a way that the Sinking Fund thus created will amount to sufficient to replace the asset at the termination of its service life. The advantage claimed is that the method ensures that funds will be available when needed for replacement, but this advantage is illusory. If all other things were equal it is true that the funds would be so available, but other things rarely remain unaltered in business operations.

Suppose that a summary of the balance sheet of a business at a given date it as under:—

Creditors	£1,000	Current Assets	£2,000
Capital and Reserves ...	15,000	Fixed Assets	14,000
	£16,000		£16,000

By means of a sinking fund it is planned to ensure that funds will be available to replace the Fixed Assets when required. By the time this necessity arises, the balance sheet of the concern may appear as under:—

Creditors	£8,000	Current Assets ...	£7,000
Depreciation Fund	14,000	Deferred Assets ..	4,000
Capital & Reserves ..	15,000	Fixed Assets (at cost)	14,000
Undistributed Profit	2,000	Depreciation Fund Investment	14,000
	£39,000		£39,000

The sale of the Investment will now provide £14,000, which in theory is available to replace the worn out fixed Assets. Actually, however, some part of it will be needed to redress the now unfavourable working capital position. At the time of the first balance sheet, Current Assets were available to meet payments of Current Liabilities; at the time when replacement is necessary, Current Assets are insufficient to pay Current Liabilities, therefore portion of the funds intended to replace Fixed Assets must now be diverted to strengthen the Working Capital.

The fact is that, in the hypothetical instance quoted, the business has expanded. Such an expansion necessitates the planning of the finances of the business as a whole, and not merely the use of devices intended to replace one portion of the assets. The replacement of Fixed Assets is thus seen to be a problem of Financial Planning. Financial Planning includes Depreciation policy, but is wider in scope, and no method of charging depreciation can in itself ensure the automatic provision of funds for replacement purposes.

7. The method of an inclusive charge for Repairs, Renewals and Replacements. In practice it is often difficult to decide whether expenditure on an asset covers repair, renewal or replacement. This method seeks to overcome this difficulty. An estimate is made of the amount that will need to be spent during the service life of an asset on repairs and renewals. This estimate is added to the original cost in order to give the total amount to be written off during the life of the asset. Equal charges against revenue are made for equal periods of time, so that this total amount will be accumulated in a Provision for Repairs, Renewals and Replacements Account during the service life of the asset. As expenditure is incurred—whether for Repairs, Renewals or Replacements —it is charged to this, Provision Account. The balance of the Provision Account at any given time, therefore, represents the still existing provision for future repairs and renewals, plus the amount of Expired Capital Outlay actually written off. A solid objection to this method is the practical difficulty of estimating expenditure on repairs in advance.

Obsolescence

A word may be added to the question of Obsolescence and Inadequacy. Obsolescence arises when an asset is no longer capable of being economically used for its original purpose, having regard to the factor of competition. Inadequacy arises when an asset is no longer capable of handling the desired volume of work and it is more economical to scrap it than to enlarge or extend it.

Many authorities regard Obsolescence and Inadequacy as coming within the scope of Depreciation; others would restrict the use of the term Depreciation to using up of value through time and use; a third School includes **gradual** Obsolescence in the term Depreciation; whilst another distinguishes between Physical Depreciation (due to time and use) and Functional Depreciation (due to Inadequacy or Obsolescence).

It is thought that there is a good case for the separate treatment of Inadequacy and sudden Obsolescence, on the ground that—in contrast to Physical Depreciation—these cannot accurately be estimated in advance. If this view is accepted, it must be realized that the Provisions made for depreciation do **not** include any provision for losses arising from Obsolescence and Inadequacy, and these factors must be provided for in some other way.

DEPRECIATION OVER THE SERVICE LIFE OF AN ASSET

According to the circumstances of the case, one or other of the following methods might be used:—

1. Charging the loss against accumulated profits, on the ground that those profits should bear a charge which, though evidenced suddenly, has in reality been accruing (or becoming more and more imminent) whilst the profits were being earned.

2. Charging the loss against Capital, on the ground that future periods will receive the benefit of the installation of improved or enlarged assets. When this course is followed, the accounts should clearly show the amount of the loss so dealt with, and, of course, that loss should be written off by charges against the future profits.

3. Charging against current profits. This would seem to be undesirable, except in special circumstances, since it has the effect of placing a heavy burden on the current period, and, moreover, destroys the value for comparative purposes of the periodical statements of profit and loss. If so made, the charge should be separately shown in the accounts, and should not be lumped with or capable of confusion with the normal charge for Depreciation. . .

EXAMINATION RESULTS

The list of successful candidates at our Society's examinations held this year, with the marks of each, is as follows:

First Examination

	Book-keeping	Accounting	Cost Accounting
Abercrombie, D. N.	—	—	60
Adamson, A. S.	66	60	68
Cloutier, P.	—	—	62
Dustan, R. J.	89	—	69
Hallberg, V.	—	62	—
Hinde, F. L.	69	—	62
Monette, J. E. F.	—	—	69
Schvemar, M.	—	—	67
Wilson, C. E. T.	—	—	89

Second Examination

	Cost Accounting	Business Organization & Administration
Broh, M.	68	93
Cope, W. J.	67	92
Gaudard, I. H.	64	91
Hallberg, V.	73	89

"Dad what is bankruptcy?"

"Bankruptcy, my boy, is when you put your money in your hip-pocket and let your creditors take your coat."

Examination Papers

I. COST ACCOUNTING

1. In a Job Costing System—
   (a) Explain the relationship between the Work-in-Process Account and the Cost Ledger.
   (b) Explain any advantages or disadvantages there are in keeping separate Accounts for—
   Material-in-Process
   Labour-in-Process
   Manufacturing Expense-in-Process
   as against keeping a Work-in-Process Account.
   (c) Explain how the Cost Clerk writes up his Job Cost Sheets and the sources from which he receives the information necessary.

2. What entries should be made (1) on the general ledger and (2) on the Cost Records, to account for the following in a manufacturing concern maintaining a job cost system—
   (a) When materials are requisitioned for operating departments.
   (b) When fixed assets are produced on factory production orders.
   (c) When Purchases of materials are made direct for use on Production orders.
   (d) When goods are sold.
   (e) When spoiled material (including labour and mfg. expense charges) is returned to stores from operating departments.
   (f) When goods sold are returned.
   (g) When Manufactured Expense is applied to Production.
   (h) Adjustment of difference in stores inventory when book value is greater than physical inventory value.

3. (a) From the following data, explain and illustrate three methods of distributing Manufacturing Expense to production.—

	Dept. "A"	Dept. "B"	Dept. "C"
Direct Material	$10,000	$5,000	$5,000
Direct Labour	3,200	2,500	3,500
Productive Labour Hours	8,000 hrs.	5,000 hrs.	10,000 hrs.
Manufacturing Expense	$ 4,000	$2,500	$2,800

   (b) Apply results obtained in (a) to the facts given below for Job No. 10, in order to show the different total job costs obtained by either two of the methods used above—
   —Charges for Material and Labour to Job. No. 10 are as follows—

	Dept. "A"	Dept. "B"	Dept. "C"	Total
Direct Material	$1.00	$2.00	$1.00	$4.00
Direct Labour	$1.60	$1.50	$1.05	$4.15
Productive Labour Hours	4 hrs.	3 hrs.	4 hrs.	11 hrs.

4. The Scott Corporation distributes manufacturing expense to Production at a fixed rate of 120% of the Direct Labour Cost, which it credits to Applied Manufacturing Expense.
Their fiscal years ends on March 31st.
At December 31st, 1934, the actual Manufacturing Expense incured for the year to date was $536,850. and the Direct Labour was $420,000.
The Actual Manufacturing Expense for January/35 was $45,000, for February, $,000, and for March, $45,000.
The Direct Labour for January/35 was $42,000, for February, $45,000, and for December, $27,000.
Cost was $413,250. Finished Goods were on hand on March 31st, Goods were sold during the year on which the Direct Labour 35 on which the Direct Labour Cost was $107,400, and the Work-in-Process on March 31st included Direct Labour Cost of $13,350.
There were no inventories at the beginning of the year.
   (a) What was the amount of under-applied Manufacturing Expense to date at the end of December, 1934 and at the end of January, February, and March, 1935, respectively.
   (b) What entries would be required to adjust the under-applied Manufacturing Expense as at March 31st/35, so that inventories and profits may be shown at their correct amounts.

5. The Baldwin Corporation manufactures two products, designated respectively as X and Y. Processing is done in four departments known as A, B, C, and D, but Product X is processed only in Departments A and B, while Product Y is processed in Departments A, B, C, and D. The production of each department is processed alike in every respect, regardless of the product into which it is finally manufactured.
During the month of April/35 the expenses of each department were—

	Dept. A	Dept. B	Dept. C	Dept D
Direct Material	$51,000	$ ——	$1,500	$4,800
Direct Labour	24,000	30,900	4,500	8,100
Fixed Charges	3,0000	6,000	2,400	1,500
Apportioned Charges	7,500	6,000	2,400	1,500

The Production record for the month of April showed the following—

	Dept. A	Dept. B	Dept. C	Dept. D
Number of pounds started in process	900,000	810,000	420,000	380,000
Number of pounds finished	810,000	720,000	380,000	280,000
Number of pounds in process April 30th	90,000	90,000	40,000	100,000

Of the 720,000 pounds finished in Department B, 300,000 pounds became Product X without further work. The remainder of the

product was transferred to Department C for further processing. Unfinished work in each department is estimated to be one-half finished, including material and all expenses in the department in which it is located.

Prepare Cost Statement showing—

(a) The Cost per pound in each department.
(b) The Cost per pound at the end of each stage of production.
(c) The value of Work-in-Process remaining in each department.
(d) The value of each class of Finished Goods.

II. ADVANCED COST ACCOUNTING

1. (a) What are the functions of a system of Budgetary Control?
   (b) You installed a budgetary control system in the Winnipeg Mfg. Co. Ltd. during 1933. The Company now advises you that the results have not been so beneficial as was anticipated and ask you to investigate. What would you look for as the probable cause of this unsatisfactory result

2. The Norwood Company manufactures goods to order and operates a Specific Order Cost System.

Manufacturing Expense is distributed on the basis of productive labour hours and the rate is calculated each month. Work completed during the month is delivered at once and transfer is made from Work-in-Process Account direct to Cost of Goods Sold Account, using the predetermined rate, with necessary correction to be made later. At the end of each month the ratio is re-calculated, the cost sheet for each order worked on during the month is adjusted as is necessary and corresponding adjustment is made on the controlling accounts. The rate calculated for the month of January, 1935 is 50c. per productive labour hour and this rate is used for the application of Manufacturing Expense during the month of February.

On February 1st, 1935, order "20" remained in process, with the following charges to date:

Direct Materials	$30,000.
Direct Wages	20,000.
Manufacturing Expense, 25,000 productive labour hours @ 50c	12,500.
	$62,500.

The following information is given for the month of February:

Direct Materials issued to Factory	$99,000.
Direct Labour	52,000.
Manufacturing Expense—Actual	38,850.
Number of productive labour hours—70,000 hrs.	

During February order "20" was finished, and of seven others started in process five were finished. On February 28th the two unfinished orders "26" and "27" showed the following charges:

	Order "26"	Order "27"
Direct Materials	$5,000.	$2.500.
Direct Labour	3,000.	1,000.
Manufacturing Expense—		
3.500 p.l.h. @ 50c	1,750.	.....
1,500 p.l.h. @ 50c	.....	750.
	$9,750.	$4,250.

(a) Write up the following accounts in the General Ledger:
(1) Stores
(2) Work-in-Process
(3) Cost of Goods Sold
(4) Manufacturing Expense Control
(5) Applied Manufacturing Expense
and show Journal entries for all items affecting these accounts, incldiuing entry for adjustment of Manufacturing Expense charge.

(b) Give (1) the estimated and (2) the actual cost of goods finished during the month.

(c) Give the adjusted Work-in-Process Inventory as at February 28th.

(d) Give the rate per productive labour hour to be used in the application of Manufacturing Expense in March.

3. The Scotia Chemical Company manufactures one main Product and one By-product.
From the following information calculate the profit per ton (2,000 lbs.) of Main Product on every ton sold:
Main Product sells for $600.00 per ton. The selling and administration charges are 20 per cent of the selling price. This product is made from three ingredients, N., O., and P. in the following proportions and at the following costs.
N. 20% Cost $100.00 per ton.
O. 30% Cost $ 50.00 per ton.
P. 50% Cost $ 30.00 per ton.
Handling and storage charges amount to 10 per cent of the cost of each ingredient.
The plant is divided into five productive departments of which A, B, C, and D are engaged in the manufacture of the Main Product, and E in the recovery of the By-product.
The following data shows the cost of direct labour per ton of product handled in each department, and the percentage of departmental factory expense to the direct labour:

	Department	Direct Labour per ton	Percentage of departmental factory expense to direct labour
A	Mining	$25.00	75%
B	Furnaces	12.50	300%

C	Washing & Drying ..	15.00	100%
D	Grinding & Packing .	50.00	50%

General Factory Expenses that can not be charged to any one department amount to 50% of the total, direct labour.

In Department B there is a yield of only 75% of Main Product from the tonnage of the ingredients mined—the other 25 per cent is treated in Department E, and one-half of this 25 per cent is recovered as By-product, the other half being entirely waste.

A Net Profit of $40.00 per ton of By-product sold is made, after expenses of every kind are charged against it. No charge is made against the By-product for the raw material from which it is recovered.

4. Why are "Special" Cost Reports of so much value in the complete operation of a Cost Accounting System?
   Submit forms for one such Special Cost Report which you consider of particular value, and your recommendations for its use.
5. In a Standard Cost Accounting System different methods of procedure may be adopted in making the necessary debit and credit entries to Work-in-Process, Finished Goods, and other accounts.
   (a) Specify the methods which may be used.
   (b) Which method do you prefer? Why?
   (c) Describe briefly the procedure under the method selected.
6. The Morgan Manufacturing Company, operating a Standard Cost System, uses the straight piece-rate plan of paying direct wages, and distributes Manufacturing Expense on the basis of productive labour hours.
   Department A produces Part XY 143 complete and ready for assembly.
   The workmen are paid at the rate of 90c per unit for the work completed. Manufacturing Expense is charged at the Standard Rate of $2.20 per hour.
   The Standard unit cost of Part XY 143 is as follows.

Direct Material	$2.80
Direct Labour	.90
Manufacturing Expense	1.80
	$5.50

   Two machines operate in Dept. A—manned by employees Johnson and Taylor respectively. Materials are charged to each machine separately.
   The production records of these two employees for the month of March, 1935, show the following data:

	Johnson	Taylor
Direct Materials Used	$904.80	$551.20
Number of Productive Hours worked	208 hrs.	208 hrs.
Number of units completed	312 units	208 units

Required:

(1) Total Cost, and Cost per unit of the work completed by Johnson.

(2) Total Cost, and Cost per unit of the work completed by Taylor.

(3) Variance from standard of cost per unit of Johnson's work and of Taylor's work—(a) in total and (b) by elements of cost—and the cause of such variance.

III. BUSINESS ORGANIZATION AND ADMINISTRATION

1. Explain what is meant by "Functional" and "Divisional" Organization. Contrast the duties of the shop foreman under the two systems.

2. What are the main functions of a Purchasing Agent in a large organization? Point out the essentials of a purchasing contract.

3. In a shop using the Emerson efficiency wage, what will a man receive for a 48 hour week if he turns out 10 pieces, having a standard time of 5 hours per piece and a wage of 60 cents per hour.

4. What is meant by "Time Study"? Describe how you would proceed in determining a "standard time" for some particular job.

5. In a Halsey 1/3 premium shop, with a standard time fixed at 20 pieces in 5 hours and a 50 cent hourly rate, a man turns out 20 pieces in 4 hours. What is the direct labour cost per piece to the employer?

6. Compare merit with seniority as a basis for promotion, and in times of adversity as a basis for discharge.

EMPLOYEES' RULES — 80 YEARS AGO

When a firm was celebrating its 80th birthday recently, one of the oldest of the employes took the occasion to read the employee's rules for the first year of operation. In these days of agitation for 30-hour-a-week laws, with extended holiday periods and lessened responsibility, it is interesting to note three of those early rules, which were:

The store must be open from 6 A.M. to 9 P.M. the year round.

The employee who is in the habit of smoking Spanish cigars, being shaved at the barbers, going to dances and other places of amusement, will surely give his employer reason to be suspicious of his integrity and honesty.

Each employee must pay not less than $5.00 a year to the church and must attend Sunday School regularly. After 14 hours of work in the store, the leisure hours should be spent mostly in reading.

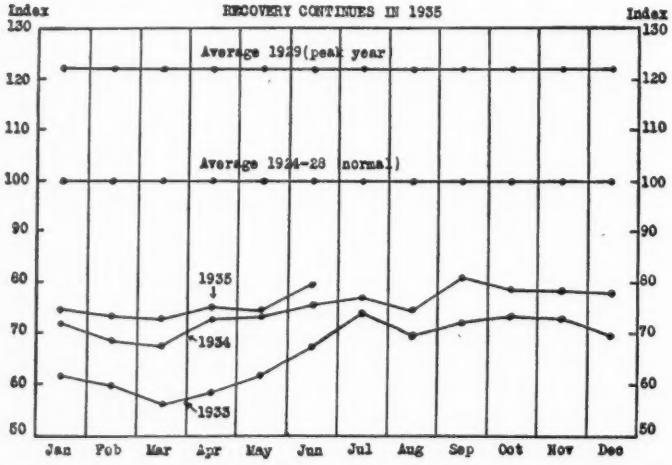
Recovery Continues in 1935

Statistics for First Six Months Show Gain Over Year Ago, But Two More Years at this rate Would be Needed to Bring us Back to Normal

By W. A. McKAGUE

CONTINUED gains in business were apparent through the first half of 1935. The advance over last year was small, but it was not interrupted in any month. The trend was steady, with June showing a more definte rise than did any of the earlier months.

An index of Canadian business is chartered herewith, giving a comparison with the average for the five years 1924-28, which may be considered a normal period for Canadian business, and with the peak year 1929. The low point was reached in March, 1933,



when volume of business averaged only 56 per cent of normal. In the succeeding four months, after the United States depreciated its dollar, there was a marked stimulus to business,—a development which parallelled that in Great Britain when it left the gold standard in September, 1931. A relapse followed, but at no time has business returned to the low which was experienced in early 1933. Canadian business averaged over 70 per cent of normal in the last half of 1933, and showed a persistent gain through 1934 and the first half of 1935.

This index is composed of bank debits or clearings, building permits, freight car loadings, foreign trade, employment figures, and sales of life insurance, each of which is a fairly broad indicator of general buying power and actual transactions, so that when combined into a single index, the result must come close to showing the total business turnover of the country.

Apart from the steady gain to date, the most striking feature is the distance we have still to go to get back to normal. We could continue to gain at about the present rate, through 1935 and two more years before reaching the 1924-28 average which, as already pointed out, was a fair normal, not a boom period. That kind of a recovery would no doubt be the healthiest for all concerned, but it is not the usual experience. There is always some difficulty in starting the upward climb, but once momentum is acquired, there is a tendency for over-confidence to develop, and for speculation to get out of hand. 1929 was such a year.

Through depreciation of money and agreement among the nations for more liberal currency issues, however, the possibilities for business expansion are now greater than ever before. At the current gold level (about $35 per oz.) each ounce of gold held represents 35 dollars in place of 20.67 formerly, and it has been agreed that notes can safely be issued in the ratio of four to each gold dollar, in place of the former ratio of two and one-half to each gold dollar. The combined effect of these new standards is to create a potential currency issue of more than double what was possible before, on the existing world gold supply. That is, more than double the business and speculation of the boom year 1929, could now be financed!

Of course it is a far cry from the actual to the possible, and the business man has to watch his step so long as the rate of progress is slow. There is still lack of confidence on the part of both business and the public, and a tendency to play safe. The main reason for this is the attitude of hostility towards business which is being shown by so many of the socialistic leaders who are now in public favor, and the heavy taxation which is being imposed on business, both big and little. If the business man is not to be permitted to operate for a profit, then business as we know it is done. But so long as the steady gain in business continues, even in the face of these difficulties, there is every hope that the public will regain its confidence, and extend its buying, under which conditions unemployment would largely disappear, and with it would go most of the criticism about the way business is conducted.

The immediate outlook is for a continuation of the gains which marked business in the first half of the year, so that volume in the autumn and winter should be well ahead of either of the past two years.

Valuation of Stock-in-Trade

By P. TAGGART, I.S.A.A.
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(From The Accountant, London, Eng.)

THE accounting term "Valuation" in connection with assets is not a term to be read with the ordinary dictionary significance. Indeed "valuation at cost" does not imply any act of valuation though frequently cost is accepted as a basis or starting point of valuation.

This accounting practice of accepting costs, or a proportion of cost, as a criterion of value results from the knowledge that all assets (except debtors and bills receivable) are included in the ledger accounts, before "valuation," at their cost, though stock costs are recorded in total costs comprising those relating to goods sold and goods not saleable as well as goods unsold. A proportion of such costs may in general be calculated as attaching to the unsold part. In calculating such proportion there arises the problem of identification of the goods unsold as being part of particular cost of acquisition, or a proportion of a particular range of acquisitions. In general the unsold stock is considered as (or may in fact be) the produce of the latest costs appearing in the accounts, so that particular cost values or cost average will be adopted as the notion of cost. Even where, in fact, the stock is identified as part of earlier costs, and later acquisitions have been sold, provided the unsold part is identical with the sold part and equally suitable for sale at full value, the cost of the last item purchased. This is merely the application of the principle of substituting one article for another, and then considering that the substitute carries all the incidents which attached to the thing replaced.

Distinction from Costs of Unsold Goods

Leaving aside the larger question of the definition of cost, it is clear that the cost of unsold stock may be ascertained and is found actually in the accounts. The question now arising is as to whether such cost should be adopted as the basis of value, or whether some adjustment of profits must be made so as to alter its value. "Valuation," therefore, implies a consideration of the profit or loss quantity on cost.

Stock is the primary element of the circulating capital. Those acquisitions and processes, which are obtained and operated so as to revolve towards the realisation point on the circle of business operations, involve costs which are incurred in fact and in chosen measure in the intention to produce ultimate sales, so that the ultimate sale

moneys may provide, **inter alia**, for the repayment of the cost of the acquisitions and processes involved. These costs are incurred before the sale, but are incurred inevitably for the purpose of sale. There is an interval and also a risk between cost incurrence and sale, and these factors of time and risk bear on the problem of intermediate valuation. Still, this progress towards sale is the purpose of the costs, and the value of such costs in the intervening time is governed by the relative effectiveness of the issues of such costs to produce by sale, not merely the profit and selling expense but also their own worth, so as to maintain the flow of circulating capital unimpaired in value for further use and unimpaired in its periodicity of user.

Forecasting Sales

Now the measure of utility for sale depends primarily upon the selling return. This is future in point of time and therefore subject to estimate only. If, however, there be no prophecy of a change of sale time or value in relation to the sales return, i.e. if the forecast causing the cost is not substituted at the end of the financial period by another forecast, the original cost is real as a valuation. This cost is real in the sense that it is the measure of investment made through services leading up to sale, and the services are still good for their purpose. This then establishes the general case that valuation at cost is the general rule until change factors intervene.

Forecasts of sales possibilities, however, are subject to the extremes of optimism and pessimism and all those shades of difference of opinion lying between. (Accountancy has been described as pessimism in balance sheets and optimism in prospectuses. This is **not** true, but must be regarded as the most extravagant expression of a real truth of accountancy practice, at least so far as pessimism is concerned!)

The problem of forecasting sales will generally take note of a relationship existing between some of the cost elements (e.g. materials) and the sales returns. A fall in the price of raw materials will commonly foreshadow a fall in sales value, and contrariwise, a fall in sales value will tend to force a fall in the cost of the materials entering into the cost of such sales.

Reproduction Cost

Thus the "reproduction cost" of stock now demands consideration, for, if it may be estimated that reproduction cost at the time of valuation has fallen, this fact will probably forecast a fall in ultimate selling values. On the other hand certain obvious conditions in the sales market may similarly forecast, probably after a short interval, a fall in reproduction costs.

Calculating the reproduction costs, therefore (and we assume no change in the method of reproduction), our problem is to decide whether we shall use such figures as the stock value. The value so calculated may involve a value below cost or a value higher than cost.

If the reproduction cost be less than the actual cost we have to consider the probable sales result. In the extreme case of production under contract, so that the sales produce is assured, we may ignore the difference in the values. Our accounting period has done its work in carrying us so far towards the earnings of the sales return, and it is entitled, therefore, to full credit for the costs of its own work. At the other extreme, where the sales return is assured to be less than the range of prices expected when the costs were incurred, the opposite view is forced, namely, that the service of the earlier accounting period passed over to the later accounting period cannot give us the measure of ultimate value which it was operated to give. Thus real loss is present and must be discounted by valuation accordingly, so that the stock will be valued at replacement cost.

Now the cases in between the two extremes stated must be decided by the sales forecast. Fluctuation not showing a continuing tendency to bear against sales returns may be ignored in the main, at least so far as the sales may reasonably be expected to extend to a time outside that of present fluctuations. A probable price set-back must be met where the production cost is found to be less than original costs, and indeed where reproduction costs are found to be running lower than actual cost this fact alone may be taken as the sign of a probable reduction in selling price. Even where a time lag shows an expected falling in sales value, but as yet a fall in reproduction costs has not declared itself, it seems logical to devalue cost by a ratio equal to that of the reduction in selling value, and thus anticipate the probable fall in replacement costs during the sales interval.

On the other hand, if replacement costs rise, may we so value stock as to take the profit involved? If we are calculating profit earned in the period we are quite entitled to consider the profit as earned. In this last sentence we must read "profit" as the measure of a fact without regard to its effect. We are, however, definitely restrained by its effect. Profits in accounting are not the profits defined by the dictionary, or even profits according to a legal definition. (The writer refers the reader to his recent book on "Profits and Balance Sheet Adjustments" (Pitman) for fuller consideration of this matter and its related problems.) Profits in accounting is a disposable surplus, that is disposable within a period. If profits could be paid away in the form of stock-in-trade there would be little problem involved, and we might include the valuation rise in our stock value. On the other hand the relationship of profit to the cash which will be used for its disposal governs our view, and any profit not arising from an actual sale will be left out of the computation, not because it is not real profit, but because it cannot be detached for distribution. Thus we postpone such profits to the next account by refusing to use the revaluation basis and adhering to the cost valuation. We add as an

ingredient to the justification for refusing to take credit for such profit reference to the fact that the profit itself is at risk, and such risk must be insured against. ..This point is important but a premium of one hundred per cent. may be considered as heavy for the calculation of a risk factor in some cases!

Itemized Treatment

Now suppose that in stocktaking we find all the elements present, showing in the stock inventory some stock of which the cost and reproduction cost are identical, and some of which the reproduction cost is higher than the actual cost, and also some of which the reproduction cost is lower than their cost, the question will be raised as to whether we should average out the whole of the values, or set off any one quantity against any other. Practical views and a sense of proportion will decide many cases of practice, but to state the logical view we suggest that each item of stock is a separate fact and risk, and that, therefore, each item should be dealt with according to the rules outlined. Thus where the reproduction cost of stock is equal to or greater than the original cost, the cost value of such item will be retained, but in the items where the cost exceeds the replacement cost the replacement cost should be used.

The statement of a general case is open to attack by reference to particular conditions, and particular conditions may frequently outweigh general conditions so as to modify a case under actual treatment. Some particular conditions are therefore offered for special consideration:—

1. **Shop Soiled Stock.** There can be no mention of reproduction cost here! The stock remains to be sold for what it will fetch. In the meantime such stock will carry with it further costs of cleaning, handling, storing and selling, and involves a loss on interest on the capital invested and even the temporary loss of use of such capital, though this latter point is one for cover by general reserve. The only criterion of value, therefore, is to take such percentage of the estimated sale value as will allow for all the further costs and cover the risk of there being no sale or only a partial sale. Cost does not enter into this computation except that it must not be exceeded.

2. **Season Remainders.** The conditions here are similar to those of shop soiled stock except that there is a more positive market possible, namely, the following season, if fashions allow! The same principle as that applied to shop soiled stock may therefore be adopted, viz.:—to discount the expected sales value by the measure of expected costs meanwhile, including rent and interest and something to measure the risk to the capital. An alternative is to value such stock at reproduction cost less interest calculated to the following season, and then to deduct rent and other costs to be incurred in the waiting period. Valuation is, of course, simplified by an "out of season" sale with corresponding reduction of valuation to a value which will be

based upon the re-marked selling value and leave a fair margin of gross profit. Thus, if a gross profit of 25 per cent. on turnover be usual, a valuation of the remained stocks at about 75 per cent. of their re-marked sale price is a working possibility. (The writer assumes that we are considering real notions of valuation and not mere prudential conceptions. The latter may write an unsold asset down to a nominal value as a measure of heroic prudence. The mind we need here is that of the auditor where the directors desire to express the stock at the highest figures that may be justified. The directors will place a limit to our prudential maxims, but not so easily find a limit they can place against the operation of our real valuation sense.)

3. **Overstocked Goods.** Overbuying may produce conditions similar to those in the preceding paragraph but different in that the sales continuity is uninterrupted. There is here no problem of valuation other than the general one. There is, however, the problem of locked up capital, the break of periodicity in the turnover of circulating capital. This is, of course, a matter for cover by capital or general reserves and should be dealt with accordingly. It is understood, however, the directors may choose, rather than to increase the open reserves, to create a secret reserve by reducing the stock for valuation. This action, however, is not one of valuation of stock, but part of that whole problem of under-valuation which, temptation scorning, we may not develop in this consideration.

4. **Base Stocks.** Where base stocks have been broken during the year and replaced, the replacement is, of course, not merely related to current sales policy, but to the purpose of the base stocks, that is the insurance of future costs. Hence the replacement of base stocks in order to repair the base is measured for value by the base valuations and neither the cost of present replacement nor the cost of the goods is enforced for valuation.

5. **Reserves** available may, of course, offset some measure of loss not discounted in the stock valuation, so that where such reserves are available and to the extent of their limits, cost valuations may be used notwithstanding the fall in replacement costs. Clearly we do not need two defences against the same loss, but in serious cases there may be a release of past profits to present accounts, and comment may be due accordingly. The question involved is hardly one of principle but is one of the measure of facts. **De minimis non curat lex.**

But what is cost? To answer this question fully would be to anticipate another discussion, but it may be indicated that cost really includes on-cost other than selling on-cost or the trader's services. Some, or the whole measure of on-cost may be treated in fact as secret reserve, that is not included in valuations. The offset of year to year adjustments may not bear seriously against the computation of an intermediate year's profits in most cases, so that the crime of the

business youth may not have any serious later effect until the end—when so little may matter—but the existence of the secret reserve is real, even as a skeleton in an attractive cupboad!

Finally, we re-state the general rule, namely "stock in trade should be valued at cost, unless, either repetition cost is enforced by probable change in selling conditions, or selling conditions have so changed that a valuation proper to such selling conditions is enforced so that, then, repetition cost is one possible basis of de-valuation." "Or market price whichever is lower" may refer to the buying market or occasionally the selling market. Let us forget this term altogether. These two markets are separated by a whole business including its stock however valued.

NEW WAGE SCHEDULES AT TORONTO PLANT

Announcement was made on June 25th by C. R. Vint, vice-president of the Colgate-Palmolive-Peet Company, Limited, that henceforth the hours of work in the Colgate-Palmolive-Peet factory will be shortened materially. At the same time, a new schedule rates of pay will go into effect. "This improvement in working conditions," Mr. Vint said, is made possible largely through the loyalty and efficiency of our employes. The exceptionally low labour turnover at the Colgate-Palmolve-Peet Company is a very important factor in making possible this new schedule of time and rates." This low turnover, Mr. Vint continued, was a most important detail in maintaining the high standard of efficiency in operations which went so far to increase the sales.

Another contributing factor in bringing about the new schedule, according to Mr. Vint, was the policy of steady, consistent advertising; guaranteed profit to the dealer, and quality merchandise at reasonable prices to the consumer. The carrying out of this helped to increase the sales of all products of the Colgate-Palmolive-Peet Company, and the benefit of this ncrease is passed on to the employes.

Did you do nothing to resuscitate the body?" was recently asked of a witness at a coroner's inquest.

"Yes, we searched the pockets," was the reply.

* * *

"What's the idea of the Greens having French lessons?"

"They've adopted a French baby and want to understand what it says when it begins to talk."

* * *

A stranger applied at the police station for a lodging, and when asked his name, replied that it was Smith.

"Give me your real name," he was commanded by the custodian of the records.

"Well," replied the applicant, "put me down as William Shakespeare."

"That's better," the officer told him. "You can't bluff me with that 'Smith' stuff."

TARIFF and TAXATION

Re Canada-France Trade Agreement Act, 1933

Ottawa, 2nd May, 1935.

1. By Order in Council (P.C. 1164) dated 30th April, 1935, it is provided that the undermentioned products, originating in and coming from the French Customs territory, the French colonies, countries under French protectorate and territories under French mandate, shall, effective 23rd March, 1935, enjoy on their importation into Canada the tariff treatment hereunder indicated, viz.:

Number of Canadian Customs Tariff		Tariff Treatment
Ex. 156	Liqueurs	Intermediate Tariff less a discount of 40 per cent.
Ex. 156	Cognac brandy and Armagnac brandy	Intermediate Tariff less a discount of 50 per cent.

The above reductions are supplementary to the Trade Agreement between Canada and France, signed on the 12th May, 1933, and subject to the provisions thereof, and will apply to all goods mentioned in the Order in Council referred to imported or taken out of warehouse for consumption on and after the 23rd March, 1935, and also to goods previously imported for which no entry for consumption was made before that date.

2. The concessions granted under the Order in Council also extend to countries enjoying Most Favoured Nation treatment in tariff matters by Canada.

3. Extract Item 156, Liqueurs, and Extract Item 156, Cognac brandy and Armagnac brandy, in Supplement 8 to Memorandum No. 658 are hereby superseded, effective on and after 23rd March, 1935.

Cement Pipe

Ottawa, 7th May, 1935.

You are advised that, effective May 15th, 1935, the Department will hold that all cement or concrete pipe, whether manufactured on the job or in the plants of contractors, manufacturers or others, will be subject to sales tax on the sale price or the equivalent thereof. This does not, of course, refer to reinforced concrete pipe which is built in its permanent position.

Manufacturers of concrete or cement pipe should therefore be notified of this requirement where they are not already under license.

Certificates "M-B" & "N-B" on Invoices—Antimony Oxide

Ottawa, 8th May, 1935.

Under authority of Order in Council (P.C. 1122) dated 29th April, 1935, for entry under the British Preferential Tariff, effective 11th May, 1935, of Antimony Oxide, the requirement of one-half British content is reduced to one-quarter.

The following paragraph is a further supplement to paragraph eight on page five of Memorandum No. 149, 2nd Revision, (see supplements 1, 2 and 4):

> "For entry under the British Preferential Tariff, the requirement of one-half British content is hereby reduced to one-quarter in respect of Antimony Oxide."

Certificates of Origin "B" on invoice forms "M-B" and "N-B," for purposes of such entry, may be altered accordingly.

The Intermediate Tariff Extended to Hayti

Ottawa, 14th May, 1935.

By Order in Council (P.C. 1238) dated 10th May, 1935, printed herewith, the benefit of the intermediate tariff is extended to products originating in and coming from Hayti when imported direct, conveyed without transhipment from Hayti or from a port of a country enjoying the benefit of the British Preferenital or Intermediate Tariff into a sea, lake or river port of Canada.

Invoices of goods for entry under the Intermediate Tariff shall be certified to as to origin, quantity, value and other particulars as prescribed by the Customs Regulations. The Certificate of Origin shall be in form similar to the Certificate (A), Form "M-A," Memorandum No. 149, 2nd Revision, dated 1st March, 1933.

Until 15th June, 1935, Certificate "M" may be accepted, provided Collectors are satisfied that the goods comply with the provisions of Form "M-A" as to content, and the regulations have been otherwise complied with.

This Order in Council shall apply to goods imported or taken out of warehouse for consumption on and after 15th April, 1935, and to godos previously imported for consumption for which no entry for consumption was made before that date.

"WHEREAS under the authority of Section 4 of the Customs Tariff, the Governor in Council is empowered, from time to time, to extend the benefit of the Intermediate Tariff, in whole or in part, to any country the produce or manufactures of which have previously been subject to the rates of the Customs duties set forth in the General Tariff;

"AND WHEREAS, by an Exchange of Notes dated 12th April, 1935, the Haytian Government undertook to accord most-favoured-nation treatment to Canadian goods imported into Hayti for a period of three months from the 15th April, 1935;

"NOW, THEREFORE, His Excellency the Governor General in Council, on the recommendation of the Acting Secretary of State for External Affairs, and with the concurrence of the Minister of Finance, the Minister of Trade and Commerce, and the Minister of National Revenue, is hereby pleased to order as follows:

1. The natural or manufactured products originating in and coming from Hayti shall enjoy, as from the 15th April, 1935, on their importation into Canada, the rates of the Intermediate Tariff;
2. In order to secure the advantages aforesaid such products shall be conveyed without transhipment from Hayti or from a port of a country enjoying the benefit of the British Preferential or Intermediate Tariff into a sea, lake or river port of Canada."

New Zealand Trade Agreement, 1932

Ottawa, 14th May, 1935.

You are advised that by Order in Council (P.C. 1234) dated 10th May, 1935, the New Zealand Trade Agreement, 1932, as published in Memorandum No. 534, has been extended for a further period of six months from the 24th day of May, 1935.

Ottawa, 15th June, 1935.

Fixed Valuations Under Section 43 of the Customs Act

In view of the Tariff amendments assented to on the 13th June, 1935, affecting berets, hats, hoods and shapes, the Honourable the Minister has ordered that the fixed valuations for duty purposes on these commodities as set forth in Appraisers' Bulletins Nos. 3872 and 4267 be cancelled, effective the 23rd March, 1935.

Ottawa, 15th July, 1935

Tariff Change By Order in Council

By Order in Council P. C. 1944, dated July 12, 1935, it is ordered that the products of the British possessions hereunder defined and described be, from and including the 23rd day of March, 1935, granted the tariff treatment hereunder indicated:-

Number of Canadian Customs Tariff		British Preferential Tariff
156b	Angostura Bitters, the produce or manufacture of the Colonies enumerated in Section 10 of the Customs Tariff, when conveyed without transhipment, by ship, direct into a sea, lake or river port of Canada ..... per proof gallon	$2.00

Departmental Rulings

Spinach Seed, when imported in packages weighing more than one pound each ..... Tariff Item 73.

Gramophone Needles ..... Tariff Item 597a.

Electrifal Generator Cutout, used on an automobile for grounding the

electric current produced in the Generator when the battery is fully charged, usually located above the electric generator. Not a part of the generator but a separate entity and dutiable under .... Tariff Item 445k.

Silent Timing Chains, complete, for automobile engines ....Tariff Item 428a.

"Camerons" Special Diagnostoset, per descriptive illustration, consisting of a Tele-Vaginalite complete, a Procto-Sigmoidoscope and a Vitrohm Potential Adjuster ..... Tariff Item 476.

The weekly publication "Journal of the American Medical Association" may be admitted under Tariff Item 184c for the balance of the present six months' period of general classification which terminates on the 30th September, 1935, and officers concerned are requested to make this change in Appraisers' Bulletin No. 4335.

The monthly publication "American Journal of Nursing" may be admitted under Tariff Item 184c for the balance of the present six months' period of general classification which terminates on the 30th September, 1935, and officers concerned are requested to make this change in Appraisers' Bulletin No. 4335.

Mine hoists of all sizes and capacities are held to be of a class made in Canada and such articles, therefore, are not entitled to entry under Tariff Item 410y but are rated for duty under Tariff Item 427.

The "Dorr" Classifier is dutiable under Tariff Item 427 and not admissible under Tariff Item 410v, although used in mining and metallurgical operations.

This ruling is effective on and after the 3rd May, 1935.

Material, per sample, described as Ciment Fondu, manufactured by Lafarge Aluminous Cement Company, Limited, London, England, is admitted under Tariff Item 290.

Material, per sample, described as Absorene Wall Paper Cleaner, manufactured by the Absorene Manufacturing Company, St. Louis, Mo., is admitted under Tariff Item 220.

This ruling will apply to all similar wall paper cleaners, e.g., Climax Wall Paper Cleaner, manufactured by the Climax Cleaner Manufacturing Company, Cleveland, Ohio.

This ruling is effective on and after the 25th May, 1935.

The words "margins of preference" in the United Kingdom Trade Agreement, 1932 are held to mean the actual difference rather than the proportionate difference, and the Tariff rate under the United Kingdom Trade Agreement or alcoholic perfumes and perfumed spirits when in bottles or flasks containing not more than four ounces each, extract (a) Item 160 of the Canada-France Trade Agreement, is 30 per cent ad valorem, effective on and after the 1st October, 1934, and the Tariff rate on lace, nettings and bobinet, n.o.p. wholly of cotton, extract Item 529, is 14½ per cent, ad valorem plus a specific duty of 1 3-10 cents per pound, effective on and after the 7th March, 1935. The foregoing rates apply to such goods the produce or manufacture of the United

Kingdom, and also of the Irish Free State by virtue of the Irish Free State Trade Agreement, 1932.

The words "in the webb" as used in Tariff Item 552 are held to mean that the material is of the full width with natural edges as manufactured and of a length at least equal to the width. Accordingly, the Item is held to provide for material in bulk, i.e., in piece goods form, ready to be cut to size or shape or otherwise manufactured in Canada. Pressed felt in the form of strips or squares or other shapes, specially cut to size or shape is not considered to be "in the web" and is dutiable under Tariff Item 555.

Fabrics not exceeding 25 inches in width, with at least one natural selvedge and having all-over designs woven or printed thereon, are of a kind not made in Canada, when imported with side and cross borders to render them suitable for manufacture into neckties and for no other purpose. Such fabrics, therefore, when complying in other respects with the provisions of Tariff Item 564, may be permitted entry thereunder. 5

The Weak Link in the Financial Statement

By SAMUEL BERTCHER

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(From the Certified Public Accountant)

IN the women's apparel industries, the employment of certified or public accountants has constantly increased. The National Credit Office, one of the major commercial agencies in this country, estimates that at the present time over 70% of the manufacturers are employing certified public accountants.

In addition, in the preparation of financial reports, a good percentage of the assets and liabilities are independently verified by the accountant as revealed by the following figures submitted by them:

(1) 60% verified the accounts receivable and the accounts payable.

(2) In 25% of the audits, inventory taking was supervised by the accountants.

(3) In 40% of the audits, inventories were verified as to mathematical accuracy only.

(4) In 35% of the audits, inventories were accepted by the accountants "as submitted."

THE WEAK LINK IN THE FINANCIAL STATEMENT

The weak link in most of the financial statements submitted is the absence of verified inventories. In a great many statements, the inventory represents as much as 50% of the total assets. Where the accountant has verified all the other items in the statement, and has accepted the inventory "as submitted" the verification is devoid of strength. An inventory taking which is not supervised by the accountant, nor checked for clerical accuracy, is of doubtful value, and must be regarded as the weak spot in the accountant's report.

Three Difficulties

Three obstacles have stood in the way of complete verification of inventories. They are:

(1) Whether accountants are competent to supervise inventory taking in all its ramifications.

(2) The accountants' responsibility in connection with certification as to the correctness of the inventory.

(3) The limitation placed on the scope of the audit by the client because of cost.

At the joint session of credit executives and certified public accountants held in December, 1933, Warren W. Nissley, C.P.A., touched of these problems when he was asked the following question: "Where the inventory shown on the financial statement is a substantial amount, and has not been taken by the certified public accountant or under his supervision, but was certified to by the management of the concern, should the certified public accountant certify to the correctness of the statement, even though the certified audit is qualified with respect to this particular item, assuming of course that the other items listed on the statement have been verified and appraised?"

Mr. Nissley's reply, in part, follows: "The propounder of the question may have had in mind certain of the garment industries where physical inspection and count of stock may be relatively simple. Here the credit grantors may have come to expect that the accountant should take full responsibility for the inventory facts as well as its value as a matter of routine. If there were a demand that the facts as to all inventories should be verified by accountants, I think it could de done as as gradual development. It would involve a vast volume of additional work an it would be necessary to have technical experts in many lines of business on accountants' staffs available for consultation. **But the controlling factor is the cost.** You may have some cases in which you may think the risks justify the expense of having accountants take full responsibility as to all of the inventory facts as well as of the values. If so, I am sure the accountant will do so for a proper fee, even though he has to employ outside experts to assist him."

Mr. Nissley concedes it to be within the competence of the accountant, with such assistance as may be necessary in certain industries, to take or supervise the taking and evaluating of inventories. In the garment industries he states it is relatively simple, and he is

correct. Here it is unnecessary for accountants to call n experts for evaluation purposes. Purchase invoices, sales books, calculation records, etc., enables the accountant to supervise inventory taking without any difficulty. Piece goods, trimmings, goods in process, and finished garments, are easily evaluated.

With the respect to the matter of responsibility, the Federal Reserve Board's Pamphlet on Verification of Financial Statements, revised in May, 1929, reads as follows:

Divisions of Responsibility

"The auditor's responsibility with regard to inventories falls naturally into three main divisions.

(a) Clerical accuracy of computations, footings, and recapitulations.

"(b) Basis of pricing.

"(c) Quantities, quality, and condition.

"The auditor's responsibility under the first two headings is clear. He must undertake sufficient investigation of the inventories to satisfy himself that the clerical work has been accurately done and that the goods are valued in accordance with the usual commercial practice—that is, at cost or market, whichever is lower....The auditor must, however, use diligence in every case to convince himself that quantities, and condition are correctly recorded."

There is no reference in the Federal Reserve Board's pamphlet to "as submitted" inventores. On the contrary, the Board specifically admonishes the accountant as to his responsibility, and necessity for diligence in connection with the matter of inventories. The profit and loss statement is absolutely dependent upon the accuracy of the inventories at the beginning and at the end of the period under review, and the Board recommended that inventory verifications should receive special attention.

The New York State Society of Certified Public Accountants took cognizance of the matter of inventories by appointing a committee to make a survey of the "Accountants' responsibility for Inventory" and in 1930 the committee issued its report. There seems to have been some difference of opinion in the committee as to whether special reference to the inventory should appear on the balance sheet, or in the footnotes, or in the certification, but the committee agreed that the naure of the audit respecting inventory should be somewhere stated.

In part, the report reads: "The certified public accountant does wish his statements to be sound and reliable. He wants and intends to do what is reasonably necessary to that end. He wants no misunderstanding and no misconception as to what he has done and the reliance which can be placed thereon." Subsequently, resolutions were passed by the Society in which it was stated that the accountant has no responsibility beyond exercising normal care in his examination

by making tests and checks of the concern's books of account and other available records pertaining to merchandise inventories.

With the increasing use by credit men of financial statements prepared by certified public accountants the fragile part of the balance sheet must be strengthened. Consideration of this question from all angles leaves but one conclusion and that is that the accountant should assume a definite position where inventories are concerned.

It should be stated at this point that there is no intention to unduly overwhelm the accountant with burdens, but rather it is intended to increase his sphere of usefulness to his client and the business community. This is an effort in the direction of better statements, the consummation of which would be a contribution to a healthier business structure, and a sounder basis for the extension of credit. There is no doubt that all certified public accountants desire to assist in any possible improvement in the economic structure.

Credit men do not conceive the accountant to be a mere checker of figures. His sphere transcends that limited conception. The more he widens that sphere, the greater is his usefulness, and the desirability of his services. The accountant's value to his client and the business community has increased in accordance with developments in the direction of more thorough audits.

The Cost Factor

This bring us to the third obstacle to complete verifications of balance sheets—namely, limitation by the client on the scope of the audit because of cost. The principal objection here is the reluctance of clients to spend money for additional work by the accountant, and to face the facts which thorough auditing may develop. For the accountant to urge that increased expenditure, might be thought not entirely altruistic. With the cooperation of credit men, however, the accountant is in a stronger position to recommend supervision and verification of inventories.

In the women's apparel industries, relative simplicity of inventory supervision precludes increased prohibitive costs. A process of education is required to make this additional cost justifiable to the merchants. As Mr. Nissley put it—"If there were a demand that the facts as to all inventories should be verified by accountants, it could be done as a gradual development." That demand exists today and is evidenced by the fact that 25% of inventory taking in these industries is supervised by accountants.

The manufacturer who limits the scope of his audit deprives himself of the complete information necessary for effective management. A reduction in overhead expense, or resistance to its increase, may be necessary at times, but the primary importance or thorough audits must not be lost sight of. Knowledge of existing facts is fundamental, and it therefore follows that thorough audits are extremely important.

Depressed economic conditions have accelerated the problems of credit granting and as a result, information furnished by accountants

has become a very important part of the basis for credit granting. Certification of inventories is the next forward step in the accounting profession. It is an inevitable development and many accountants have already recognized this opportunity for service. In the march of progress, accountants can most certainly rely upon te cooperation of credit grantors and progressive merchants.

WHEN IS A MAN AT HIS BEST?

In general, I would say that most men are at their best at 45. There are many exceptions, but this is a safe general rule.

If we consider the body alone, a man is at his best between 25 and 30. After 30 his body begins to stiffen and he slows down.

Sharkey was heavy-weight champion at 29, Schemling at 23, Tunney at 28, Dempsey at 24, Wilard at 31, Johnson at 30, Jeffries at 24, Fitzsimmons at 34, and Corbett at 26.

The average age of heavy-weight champions has been 28, at the time they won their positions.

This seems to prove that the body is at its best at 28. The boxers of 40 who try to come back are usually knocked out easily.

The brain, however, is not fully developed at 28. As the body begins to stiffen, the brain grows stronger and stronger.

Normally, the brain should be at its best between 60 and 70. But most men, after 45, allow their brains to stiffen. They stop learning.

That is why it is safe to say that most men are at their best at 45. The efficiency of body and brain combined are likely to be highest at this age.

If this be true, it proves a very important point: it proves that man should become a student at 45. He should take action to prevent his brain from stiffening.

When a man is 45, he has reached a dangerous point in his life. He has acquired a certain amount of knowledge and experience.

The danger is that he will think this is enough. He will stop learning. His brain, then, will begin to grow old.

No one can prevent old age of the body, but anyone can prevent old age of the brain.

One of the youngest-minded men I have ever met was Alfred Russell Wallace at 74. He lived to be 90, and was young-minded until his death.

The answer to this question: "When is a man at his best?" depends upon his attitude toward new ideas and methods.

He may be at his best at 70 if he keeps his brain young—if he keeps on learning.—Efficiency Magazine.

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ONTARIO CHARTERED ACCOUNTANTS

Officers elected at the annual meeting of the Institute of Chartered Accountants of Ontario, held on June 21, 1935, are as follows: President, A. G. Calder; first vice-president, Kris A. Mapp; second vice-president, A. B. Shepard; secretary-treasurer, Gordon D. Campbell; council, A. G. Calder, Gordon D. Campbell, P. H. B. Dawson, C. S. Eddis, H. Percy Edwards, J. F. Gibson, H. E: Guilfoyle, Fred C. Hurst, W. G. H. Jephcott, Kris A. Mapp, A. E. Nash, A. B. Shepard, J. W. Taylor, A. S. Tindale, George A. Welch.

The representatives of the council of the Dominion Association of Chartered Accountants are Messrs. H. E. Guilfoyle, B. A. Shepard, A. G. Calder. Norman B. McLeod and Henry Glover were reappointed auditors for the ensuing year.

Beggar—Spare a copper, sir, I was a prisoner for nine years.
Gentleman—But the war didn't last nine years.
Beggar—I was not in the war, sir.

* * *

Whist Player: "But what made you put your queen on his ace? You couldn't beat it."
Lady Player: "No, but I thought there was no harm in trying."

* * *

Neighbor—"Er—Mrs. Brown—you've got odd stockings on."
Mrs. Brown—"Yes, dearie, that often 'appens to ladies what 'ave got more than one pair."

* * *

The theatrical orchestra was rehearsing the music of a new piece. The harmony was ruined by the eccentric behaviour of the trombone player, a new member.
"What on earth are you doing?" roared the conductor. "You were a couple of bars ahead of the rest nearly all the way."
"Sorry," apologized the offender. "You see, I once belonged to a street band, and the first to finish used to take round the hat."

* * *

The self-made man awoke one morning to find himself a millionaire and famous.
During the morning his secretary announced a visitor.
"The gentleman wishes you to tell him the secret of your wonderful success in life," he said.
The self-made man paled.
"H'm," he murmured fearfully. "What is he—a newspaper reporter or a detective?"

* * *

Diner—Where's my change?
Waiter—There isn't any, that's my tip.
Diner—But I didn't tell you you could have it.
Waiter—Oh, that's all right, sir. I'm forgetful myself sometimes.

* * *

Constable (to fair young speeder)—That was a nice pace to come along at. Didn't you see the notice: "Dangerous Corner"?
Fair Speeder—Of course I did. And as it was a dangerous corner, I naturally wanted to pass it as quickly as possible.